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## CONGRESSIONAL RECORD — SENATE

various tasks, like so many hours for mounting an engine plus a certain profit on top of that.

A 1982 study by the Air Force Systems Command found that while profits were higher between 1977 and 1981, investment in the defense industry lagged behind that attained in commercial business. "The assumption that higher return on sales will stimulate investment on defense contracts was not supported by actual experience," the study found.

The current study of defense profits headed by Colonel Finkbner, which is entitled "Defense Financial and Investment Review," is looking into the usefulness of Pentagon financial incentives and the adequacy of industry profits. Colonel Finkbner sent questionnaires to 126 companies, but only 81 of them have replied, and not all the replies are usable. The survey is voluntary, and the profitability of specific companies will not be determinable.

Colonel Finkbner considers the data base adequate, but the Comptroller General of the United States, Charles A. Bowsher, wrote Defense Secretary Caspar W. Weinberger last November that voluntary data were "questionable" in analysis.

#### HOW TO TREAT THE COST OF MONEY IS DISPUTED

One disputed incentive under review concerns a cost accounting standard that allows contractors to include their cost of money in their reimbursable capital costs. Then the total is included in the base from which the profit is computed.

The Defense Department treats the cost of money differently from the private sector, where there is no explicit accounting for an imputed cost, and from other Government agencies that do not allow for the cost of money when calculating profit, according to official documents.

Colonel Finkbner and officials of the General Accounting Office disagree about the usefulness of the provision. Colonel Finkbner said the system worked in 1977, the first year it was used, while G.A.O. officials said it should have worked longer.

IN 1983 the director and chief of the surveys and investigations staff of the House Appropriations Committee studied the effect of the cost of money on shipbuilding contracts. The study found a "lack of support in authoritative accounting literature" for its use and estimated that it cost the Government between \$1.4 billion and \$2.1 billion a year.

#### LEGISLATION WOULD END RULE

Representative Boxer, relying on data uncovered during the staff study, recently introduced legislation to end the cost-of-money provision, which she called a "special loophole for defense contractors."

Industry officials defend the cost of money as necessary in light of the Defense Department's failure to allow interest costs to be reimbursed. But the Pentagon does finance a contractor's inventory and work in progress, reducing the need to borrow money.

This financing involves progress payments, in which large contractors can quickly be paid for 90 percent of their incurred costs and, for shipbuilders, up to 105 percent. The Reagan Administration has liberalized the payments several times, though Defense Secretary Weinberger recently ordered a review of progress payments for overhead, and the President's Private Sector Survey on Cost Control, also known as the Grace Commission, estimated that the Pentagon could save \$10 billion a year by cutting progress payments.

According to Mr. Fitzgerald, the Pentagon often makes progress payments without evi-

dence of actual progress. If contractors receive the payments before they actually pay the expenses, the result is a float of cost-free money to invest. Mr. Fitzgerald has recommended that the Air Force officially adopt guidelines tying payments to actual progress.

Mr. Harr of the aerospace association said reducing progress payments would be a "burden."

#### LABOR THE MAIN COST ITEM

The most important cost factor in military contracts is labor, not only because labor costs are large but also because they are used to calculate other items such as overhead. Labor costs also include the 7 percent payroll tax paid by employers for Social Security. Both the labor costs and the payroll tax are included in calculating profit.

Studies by the G.A.O. and the Air Force have found that salaries of executives in aerospace exceed those of executives elsewhere by more than 40 percent. Mr. Fitzgerald and others recommend that the Pentagon allow no more than prevailing or comparable wage rates for a particular area.

According to Mr. Harr, it is unfair to compare aerospace salaries with those in other industries.

"Compare us to others in the industry," he said. In his view, aerospace requires unusually capable people. "You are talking about the cutting edge of technology, what will beat the Russians," he said. "Do you want ruin of the mill?"

For Mr. Harr, the setting of salaries is "one of the most important management prerogatives" and disallowing any of those costs would be meddling.

#### TEN OF THE LARGEST DEFENSE CONTRACTORS

(Ranked according to the size of their 1984 contracts)

Company	Contract amount approved by Congress (millions)	5-year average profit rate 1979-83, as a percent of equity
General Dynamics	\$9,027	19.7
Rockwell	5,628	18.7
McDonnell Douglas	5,283	13.4
Litton	3,285	25.5
Martin Marietta	2,542	21.3
Lockheed	2,276	87.1
Boeing	1,506	22.2
Grumman	971	12.0
Raytheon	885	23.2
FMC	822	13.1

Average profit rate for these 10 companies, 25.6 percent.

Sources: Air Force Business Research Group, Media General Financial Services Inc.

#### THE NICARAGUAN RESISTANCE: IS IT BEING SOLD DOWN THE RIVER?

Mr. HELMS. Mr. President, the American people are beginning to realize that the President of the United States is right when he identifies the Communist regime in Nicaragua as a security threat to the Western Hemisphere. They realize that the President is right when he characterizes the regime in Managua as an oppressive Marxist-Leninist instrument that is dependent upon Cuba and the Soviet Union to maintain totalitarian control over the Nicaraguan people.

Unfortunately, Mr. President, there are some Members of both bodies of the U.S. Congress who do not recognize the totalitarian nature of the Nicaraguan regime. They profess to see

the Nicaraguan regime as a group of reformers intent upon establishing social justice in a land once ruled by a dictatorship. They dismiss the Soviet and Cuban connections of the Nicaraguan regime as accidental associations contracted in a struggle for survival against the hostility of the U.S. Government. They attack the support that the United States has given to the Nicaraguan freedom fighters as illegal interference with the internal affairs of a sovereign nation.

Moreover, the U.S. State Department, and its operating arm, the CIA, are working in league with the aims of those Members of Congress who oppose the President's policy. They are seeking an accommodation with the Marxist-Leninist regime in Nicaragua, in exchange for obscuring the Sandinistas' alignment with Fidel Castro and the Soviet Union. So, in effect, they are using Ronald Reagan's rhetoric to accomplish the aims of those who oppose the President.

The President has made clear his wish to support a heroic fight for freedom by the people of Nicaragua against their oppressors; but I greatly fear that the U.S. State Department and the CIA may be planning for a Bay of Pigs. Are they working to exclude those elements of the Nicaraguan resistance who refuse to accept a negotiated surrender to the Communists? Whether this is deliberate and intentional, I will leave to others to assess. But I am stating the obvious effect of what is happening. President Reagan and the people of Nicaragua must not be betrayed.

Mr. President, I strongly support President Reagan in his campaign to aid the Nicaraguans in throwing off the tyranny that has enveloped their land. I reject any suggestion that the Government of Nicaragua possesses any legitimate claim to rule the Nicaraguan people. The Sandinista regime established itself by force, suppressed the right of dissent and political action, and held elections only after it so controlled the fabric of Nicaraguan society and consolidated its power that no one could possibly describe the electoral process as free. That fact has been confirmed by the Inter-American Human Rights Commission of the OAS.

Moreover, Marxism in itself is a denial of human rights in its basic principles. Not only does it deny individual rights that our traditions hold to be essential to freedom—the right to own property, the right to worship freely, the right to raise one's family according to one's moral values, and the right to free political action as a guarantee of the basic rights—but the control necessary to impose Marxist concepts on an unwilling people necessarily involves the suppression of human dignity and the use of force against the proponents of freedom.

Finally, Marxism, when combined with Leninism, is an attack not only